

changes in their methods of production, promotion, and distribution.

In other words, Mr. Speaker, the small business sector is able to dodge and weave, to take advantage of market opportunities, and to meet market niches in a rapid and creative manner. Studies have indicated that half the businesses in western Canada were actively searching for new technologies to improve the competitiveness of their business on a regular basis. In other words, at any point in time half the businesses in western Canada are involved in new initiatives to search for appropriate technologies and to find ways and means of becoming more competitive in the market-place.

These statistics clearly indicate that small business owners are the unsung heroes of western Canada, measured in terms of job creation, economic stability, competitiveness, and innovation. Yet for years this crucial sector has been lost in the shadows of public policy as one Government after another has devoted its attention to funding megaprojects and providing big businesses with major grants. Although the grass roots has been patient, frustration has mounted with the traditional regional development approach. I do not think that there has been anything more frustrating than seeing year after year the support that successive federal Governments have given to large multinationals that have the ability to easily obtain capital on international money markets. Yet the struggling small business or the struggling entrepreneur who is attempting to develop a regionally sensitive business for either the domestic or international market is largely by-passed.

That is why on August 7, 1987 many of us from western Canada viewed the establishment of the Western Diversification Office as a fresh start. I must say that the initial support that many of us had for the principle is rapidly turning into confusion due to the absence of any clear guidelines or a business plan for the management of the \$1.2 billion over the next five year period.

Always in the back of the minds of those of us who are not Liberals is the great Western Development Fund. That fund originally started at \$4 billion, it eventually fell to \$2 billion and then evaporated. One of the major jokes circulating at the time was about this evaporating Western Development Fund that the Liberals brought in, but no one ever saw or heard about other than the original announcement by the then Minister of Finance.

When one looks at the expenditures to date coming out of the Western Diversification Office, the best way to describe them is sporadic. Another way to describe them would be relatively limited. No clear pattern has emerged from these early actions. While many groups have criticized this lack of policy direction and apparent inertia, there does appear to be a critical window of opportunity now to establish policy for the Western Diversification Office at this embryonic stage. I would like to take a few moments to do just that. While we are determining the terms of reference and establishing a clear

#### *Western Economic Diversification Act*

mandate for the Western Diversification Office, perhaps I could make some suggestions as to what might be considered.

First, in each year in western Canada literally of tens of thousands of people start new businesses or expand existing firms. This is the heart of diversification; opportunities identified, resources gathered, and market niches established. The financial resources of the Western Diversification Office ought to be directed, in large part, to reinforcing this entrepreneurial activity by small businesses in order to be an efficient catalyst to broad sustainable market driven change.

When one looks at the various options available, one of the things we have to recognize is that the major problem faced by western entrepreneurs is having access to proper financing. If the Western Diversification Office can help the financing needs of many western Canadian small and medium-sized businesses, it will have made a major contribution to diversifying the western economy. Small business is financed by personal capital, reinvested earnings, debt financing, and equity investments. Bank lending practices, government taxes and programs, under-capitalization, and inadequate management preparation all combine to put a financial strait-jacket on the entrepreneurs within every western community. Measures that leverage greater access for small business through established private sector markets have greater credibility and business respect.

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The IFIB brief went on to point out that the relationship between the financial institution and the entrepreneur has changed substantially; that various business organizations have documented problems, including tight lending policies that are insensitive to individual circumstances, extreme collateral/security requirements, high cash-flow requirements, the arbitrary alteration of lending and administration practices, and the inadequate expertise of lending officials.

It goes on to state, however, that, regardless of these complaints, bank financing is the predominant element in local economic development and must be addressed that government initiatives, whether through the Small Business Loans Act, or interest shielding in Saskatchewan, or the Alberta Term Assistance Plan, "have met mixed success, but give some indication of how it can be better handled".

It points out that the Western Economic Diversification Office should undertake to have the Business Development Loans Program under the Small Business Loans Act revised and refinanced "to better encourage financing of small business entrepreneurs by financial institutions".

We might consider putting in place a regime whereby guarantees could only be available on loans made at interest rates that reflect significant risk, in other words loans made at prime plus one and one-half per cent. As well, interest rates should not be kept at a level that has the effect of interest shielding. Combining efforts to leverage risk financing with interest shielding will discourage banks from considering risk